

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 DOTE-00 CIAE-00 INR-07 NSAE-00 RSC-01

AID-05 EB-07 XMB-04 TRSE-00 OMB-01 OPIC-06 CIEP-02

SP-02 EUR-12 FRB-01 L-02 /061 W

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R 070220Z JAN 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5962

USDOC WASHDC

AMEMBASSY SINGAPORE

INFO AMEMBASSY BONN

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

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PASS EXIMBANK

EO 11652: /A

TAGS: EFIN XMB BTIO ID

SUBJ: IBRD FUNDED RAILROAD REHABILITATION PROJECT AND
FUTURE MINCOM APPLICATION FOR EXIM FINANCING

REF: A. STATE 271046 B. SINGAPORE 5016 (NOTAL)

C. JAKARTA 14028 D. JAKARTA 15002 E. JAKARTA 14462

F. JAKARTA 15253

1. BEGIN SUMMARY. GOI HAS NO PREFERENCE FOR
FRG EQUIPMENT OR TA SERVICES FOR IBRD FUNDED
RAILWAY REHABILITATION PROJECT. COMMUNICATIONS
MINISTER SEEKS USAID OR EXIM FINANCING
FOR FUTURE RAIL AND SHIPPING REQUIREMENTS. HE
ALSO UNSUCCESSFULLY ATTEMPTED TIE AWARD OF

IBRD FUNDED RAIL TENDERS TO EXTENSION EXIM
ONWARD FINANCING. OTHER GOI AGENCIES ALSO
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INVITING OFFERS OF BIDS BACKED BY G-TO-G EXPORT

CREDIT FINANCING IN APPROACH LIKELY CONFUSE
POTENTIAL SUPPLIERS AS WELL AS PRIORITIES PRE-
VIOUSLY SUBMITTED TO EXIM. END SUMMARY
ACTION REQUESTED: SINGAPORE PLEASE INFORM GENERAL ELECTRIC

2. UPON RECEIPT (DEC 11) REF A, EMBOFF MET WITH
SOERNO, SECRETARY TO GOI DIRGEN LAND TRANSPORT,
WHO ASSERTED THAT GOI HAS NO RPT NO PARTICULAR
PREFERENCE FOR DECONSULT TO HANDLE TA PACKAGE
NOR FOR FRG SUPPLIERS TO PROVIDE EQUIPMENT
PORTION OF IBRD FUNDED PROJECT (DESPITE DECONSULT
AND GERMAN SUPPLIERS PREVIOUS INVOLVEMENT IN
INDONESIAN RAILWAY SYSTEM). IN REPLY QUESTIONS
RAISED PARA 3 REF A, SOERONO INDICATED
GOI NOT RPT NOT ITSELF DEVELOPING PLAN FOR
TRAINING RAILWAY PERSONNEL ABROAD. GOI, HOWEVER,
EXPECTS CONSULTANT PROPOSALS INCLUDE SUCH
PLAN WITH APPROPRIATE ALLOCATION 800 MAN-MONTHS
BASED ON CONSULTANT'S ASSESSMENT OF IBRD APPRIASAL
REPORT (REPORT NO 387A-IND APPRAISAL OF A
RAILWAY PROJECT INDONESIA, DATED MAY 10, 1974).
SEORONO'S ONLY ADDITIONAL GUIDANCE WAS THAT
TRAINING SHOULD BE IN ALL FIELDS OF RAILWAY
OPERATIONS WITH EMPHASIS ON TECHNICAL REQUIREMENTS
AND IMPLEMENTATION OF REHABILITATION PLAN.

3. ON DEC 20 DCM (THEN CHARGE), USAID DIRECTOR, AND ECON
OFFICER WERE SUMMONED BY GOI COMMUNICATIONS
MINISTER SALIM TO "DISCUSS RAILWAY PROJECT."
DURING COURSE THIS MEETING SUMALI, DIRECTOR,
STATE RAILWAY COMPANY, MADE TWO COMMENTS RELEVANT
REF A QUESTIONS: (A) HE SAID STATE RAILWAY
PREPARED CONSIDER SEPARATE PROPOSALS FOR DISCRETE
PORTIONS TA TENDER: AND (B) TRAINING ABROAD
COMPONENT OF TENDER COULD BE BROKEN OUT FOR
SEPARATE BIDDING PURPOSES. (EMBASSY UNCERTAIN
WHETHER THESE COMMENTS SUGGEST RELAXATION REF C
REPORTED "TOTAL PACKAGE" APPROACH DUE
POSSIBLE DIFFICULTY ENCOUNTERED FINDING TAKERS
FOR WHOLE TA PACKAGE).
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4. MIN SALIM (WHO MET SAME DAY
WITH REPRESENTATIVES SEVERAL OTHER EMBASSIES)
INDICATED HIS MILITARY FINALLY COMPLETED NATIONAL
TRANSPORTATION STUDY AND THEREFORE IS NOW READY
SEEK FINANCING FOR SHIPPING (\$600 MILLION) AND
RAILROADS (\$150 MILLION), IN ADDITION TO \$300
MILLION NEEDED FOR TELECOMMUNICATIONS DEVELOPMENT

OVER NEXT FIVE YEARS. HE SAID THAT RAILWAY REHABILITATION PROJECT IS FIRST SECTOR READY FOR FUNDING BUT APPROXIMATELY \$70 MILLION STILL NEEDED OVER AND ABOVE IBRD \$48 MILLION LOAN AND OTHER DONOR LOANS TALLING ABOUT \$32 MILLION.

5. USAID DIRECTOR CASHIN POINTED OUT THAT USG HAS SHIFTED ITS AID PRIORITIES AWAY FROM INFRASTRUCTURE PROJECTS ON WORLD WIDE BASIS AND THEREFORE IS NOT RPT NOT POTENTIAL SOURCE FINANCING FOR SALIM'S INFRASTRUCTURAL DEVELOPMENT PLANS. SALIM INDICATED OTHER AID DONORS WERE TAKING SME POSITION. RHETORICALLY HE ASKED HOW DONORS EXPECT OBJECTIVES OF NON-INFRASTRUCTURE PROJECTS SUCH AS TRANSMIGRATION BE ACHIEVED IF EVERYONE REFUSES FUND NECESSARY INFRASTRUCTURE TO MAKE SUCH PROJECTS FEASIBLE. HE NOTED COMMERCIAL FINANCING NOT RPT NOT APPROPRIATE FOR INFRASTRUCTURE SINCE PAY BACK PERIOD TOO LONG. EMBOFFS SUGGESTED THAT EXIM TYPE FINANCING IS BEST US ALTERNATIVE TO CONCESSIONAL LOANS AND ASKED SALIM IF HE HAD DISCUSSED RAIL AND OTHER TRANSPORTATION PROJECTS WITH EXIM PRESIDENT CASEY. SALIM SAID THEY NOT DISCUSSED BECAUSE OVERALL TRANSPORTATION STUDY WAS INCOMPLETE AT TIME CASEY VISIT AND BECAUSE SALIM DID NOT RPT NOT THEN REALIZE USAID NO LONGER FUNDING INFRASTRUCTURE.

6. SALIM THEN PROVIDED SUMMARY FIVE YEAR DEVELOPMENT PLAN FOR STATE RAILWAYS (COPY POUCHED TO USDOC/MEPD), AND SAID THAT TENDERS FOR 24 LOCOMOTIVES ESTIMATED AT \$11 MILLION UNDER IBRD RAILWAY UNCLASSIFIED

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REHABILITATION LOAN WOULD BE ISSUED MID-JANUARY, 1975. TENDER WILL ALSO INCLUDE PURCHASE OPTION FOR ADDITIONAL \$10 MILLION OF LOCOMOTIVES AT LATER DATE. HE SAID THAT IN INTEREST OF EQUIPMENT STANDARDIZATION, HE INTENDED CONSIDER

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AID-05 EB-07 XMB-04 TRSE-00 OMB-01 OPIC-06 CIEP-02

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R 070220Z JAN 75

FM AMEMBASSY JAKARTA

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ONLY THOSE TENDERS FROM SUPPLIERS WHOSE GOVERNMENTS AGREED OFFER EXPORT CREDIT FINANCING FOR BALANCE STATE RAILWAYS PLANNED REQUIREMENTS. (FOR EXAMPLE, DEVELOPMENT PLAN CALLS FOR TOTAL \$30 MILLION INVESTMENT IN DIESEL LOCOMOTIVES; FRG HAS ALREADY GIVEN SOFT \$9.2 MILLION LOAN FOR LOCOMOTIVES AND IBRD CREDIT PROVIDES ADDITIONAL \$11 MILLION; THUS, IF US SUPPLIERS WISH TO BE CONSIDERED SERIOUSLY UNDER IBRD TENDER FOR LOCOMOTIVES, THEY WOULD HAVE TO OFFER FINANCING FOR THE \$10 MILLION GAP ON TERMS AT LEAST EQUAL TO THOSE OFFERED BY US EXIM BANK, INCLUDING "BACKING OF SUPPLIERS GOVERNMENT." SUCH CREDITS WILL BE NEEDED IN "SECOND PHASE"(1976/77) OF RAILWAY'S FIVE YEAR PLAN.)

7. WE NOTED THAT THIS APPROACH OPENED THE POSSIBILITY OF REJECTING THE LOWEST COST BID BASED ON PRICE AND FINANCING FOR TOTAL PACKAGE. SALIM ACKNOWLEDGED THIS, BUT SAID HIS INSTRUCTIONS FROM UNCLASSIFIED

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BAPPENAS WERE TO INSIST ON OFFICIAL CREDITS FOR ANY PROCUREMENT. IF US UNABLE OFFER AID OR EXIM CREDITS THERE COULD BE NO GROUNDS FOR COMPLAINT IF AWARD GOES ELSEWHERE. WE ALSO

CALLED ATTENTION TO CONFLICT BETWEEN THIS APPLICATION PROCEDURE FOR EXIM FUNDS AND WHAT WE UNDERSTOOD WAS AGREED METHOD. IN THIS CASE SUPPLIERS WOULD BE REQUIRED APPROACH EXIM FOR FINANCING COMMITMENTS WHEREAS UNDER AGREED PROCEDURE GOI WOULD PROVIDE EXIM WITH LIST OF ITS PRIORITIES FOR USE OF LIMITED EXIM CREDIT. EMBOFFS THEN SUGGESTED SALIM APPLY DIRECTLY TO EXIM FOR RAILROAD FUNDING SO US SUPPLIERS NOT RPT NOT PLACED IN POSITION OF SEEKING TO CONVINCE EXIM THAT RAILROAD PROJECTS TAKE PRECEDENCE OVER PROJECTS PREVIOUSLY SUBMITTED TO EXIM BY GOI. SALIM AGREED HE SHOULD APPLY DIRECTLY. EMBOFFS ALSO SUGGESTED HE SEEK MINFIN AND/OR BAPPENAS PARTICIPATION IN EXIM APPLICATION SO THESE TWO AGENCIES CAN CLEARLY ADVISE EXIM WHERE DEPARTMENT OF COMMUNICATIONS PROJECTS FIT INTO PREVIOUSLY SUBMITTED GOI PRIORITY LIST.

8. EMBOFFS LATER SPOKE WITH IBRD DIRECTOR GORDON WHO HAD ALSO MET SALIM AND ADVISED HIM THAT IBRD WOULD NOT RPT NOT PERMIT GOI TIE AWARD IBRD FUNDED TENDER TO EXTENSION G-TO-G CREDIT ON BALANCE OF REQUIREMENTS. IBRD WILL INSIST THAT TENDERS BE AWARDED ON SIMPLE BASIS LOWEST COST BID. GORDON SAID IBRD TENDERS WOULD INCLUDE PURCHASE OPTION FOR ADDITIONAL EQUIPMENT LEAVING OPEN QUESTION FINANCING, WHICH WOULD PERMIT EXIM CONSIDER FUNDING SUCH FOLLOW-ON REQUIREMENTS. HE ALSO TOLD SALIM THAT IF SUCCESSFUL SUPPLIER FOR IBRD TENDER FAILED OFFER FOLLOW-ON EXPORT CREDIT FINANCING, IBRD PROBABLY WOULD BE MAKING ANOTHER RAILWAY LOAN IN TWO YEARS AND COULD AT THAT TIME CONSIDER INCLUDING IBRD FINANCING FOR THOSE STILL UNFUNDED FOLLOW-ON EQUIPMENT REQUIREMENTS WHERE STANDARDIZATION HIGHLY DESIRABLE (MAINLY LOCOMOTIVES).

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9. COMMENT: DESPITE REASSURING NATURE GORDON'S COMMENT, EMBASSY FINDS TWO ASPECTS THIS EPISODE SOMEWHAT DISTURBING. FIRST, DUE EARLIER FRG LOCOMOTIVE SOFT LOAN, GOI CAN STANDARDIZE ITS EQUIPMENT AS EASILY WITH FRG LOCOMOTIVES AS WITH AMERICAN ONES. ALTHOUGH IT CLEAR NOW THAT ONWARD FINANCING TECHNICALLY CANNOT BE IMPOSED AS CONDITION OF IBRD TENDER BID, EMBASSY SUSPECTS THAT "VOLUNTARY" OFFER ONWARD G-TO-G EXPORT CREDIT FINANCING BY ONE COUNTRY WOULD IN FACT STILL GRATLY INFLUENCE GOI JUDGEMENT, ASSUMING OTHER

ASPECTS OF IBRD TENDER BIDS ROUGHLY COMPARABLE.

10. SECONDLY, WE ARE CONCERNED ABOUT APPARENT EMERGING PATTERN GOI ATTEMPTS OBTAIN LESS THAN COMMERCIAL INTEREST RATE G-TO-G EXPORT CREDITS THROUGH ISSUANCE (ALBEIT PERHAPS UNINTENTIONALLY) MISLEADING INVITATIONS TO BID. IN CASES OF WATER RESOURCES (REF D) AND SUGAR PROJECTS (REF E AND PARA 2 REF F), INVITATIONS WERE ISSUED TO POTENTIAL FOREIGN SUPPLIERS WITH ONLY VAGUE REFERENCES TO FINANCING, THUS LEADING SUPPLIERS TO CONCLUDE THAT SOME SORT PREFINANCED TENDER WAS BEING ISSUED. RESULT WAS CONSIDERABLE CONFUSION IN MARKET PLACE.

11. APPARENTLY GOI HAS SIGNED ITS MINISTRIES THAT THEY SHOULD CONSIDER INVITING BIDS WHICH INCORPORATE "EXPORT CREDIT" OFFERS, BOTH AS A METHOD OF FINDING LOW COST FUNDING FOR NEW PROJECTS AND OF PUTTING COMPETITIVE PRESSURE ON FOREIGN GOVERNMENT EXPORT CREDIT AGENCIES WHICH HAVE PREVIOUSLY RECEIVED GOI APPLICATIONS. EMBASSY FEARS SUCH INVITATIONS MAY CONTINUE MULTIPLYING, WITH SALIM'S SHIPPING SECTOR PERHAPS LEADING LIST NEW ENTRIES. WE QUESTION, HOWEVER, WHETHER SUCH APPROACH RESTS ON REALISTIC ASSESSMENT THAT TOTAL POTENTIAL AVAILABILITY TO GOI OF SUCH FOREIGN FUNDING APPROXIMATES TOTAL GOI REQUIREMENTS. THUS DANGER SEEMS EXIST THAT LARGE NUMBER GOI AGENCIES COULD BE UNLEASHED TO SEEK FUNDING FOR BROAD ARRAY PROJECTS

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VASTLY EXCEEDING TOTAL AVAILABLE EXPORT CREDIT FINANCING TO INDONESIA, WITH NET EFFECT THAT EASILY PACKAGED AND PERHAPS COMMERCIALY FUNDABLE PROJECTS MIGHT QUICKLY ABSORB AVAILABLE G-TO-G FUNDS, LEAVING NOTHING REMAINING FOR MORE COMPLEX, LESS BANKABLE, BUT PERHAPS HIGHER PRIORITY GOI PROJECTS, SUCH AS MIN SALIM'S INFRASTRUCTURAL NEEDS.

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Message Attributes

Automatic Decaptioning: X
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TAGS: EFIN, BTIO, ID, IBRD, XMB
To: STATE SINGAPORE
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